



# Four Strategies for Creating a Competitive Advantage

Competitive pressures are tougher than ever. Quality used to be a differentiator but has long gone by the wayside as something that creates a competitive advantage. Low prices are seldom a differentiator because they are expected, and customers know they can always negotiate because the competition is so tough and there's always someone waiting in the wings to take the business.

Companies have to dig deeper and work harder to create a competitive advantage.

"If you don't have a competitive advantage, don't compete."  
- Jack Welch (GE)

Creating a truly effective competitive advantage comes from the way a company creates and produces its products and services, not just how it markets them. By developing strategies specifically designed for differentiation and competitive advantage, companies can create a "wide moat" of attributes that will strengthen and protect their position in the market.

There are four strategies recommended for creating a competitive advantage. These strategies can work independently, as well as inter-dependently.

## 1.) Differentiation

The goal of a Differentiation Strategy is to provide a variety of products, services, or features that are uniquely different from what is currently on the market.

### RBF Services:

#### Accounting and Auditing Tax Services

#### Management Consulting Services

- Accounting Systems
- Business Acquisitions
- Business Startups
- Business Process Improvement
- Financing
- General Business Counsel
- Succession Planning
- QuickBooks

#### Personal Financial Counseling

### Industry Experience:

#### AgriBusiness Services

- Egg Processors
- Farming Operations
- Fertilizer Producers
- Food Processors
- Silo Manufacturers

#### Construction Industry Services

- Aluminum and Glass Contractors
- Bridge Contractors
- Building Supply Companies
- Commercial Building Contractors
- Drywall Contractors
- Landscaping Contractors
- Masonry Contractors
- Mechanical Contractors
- Plumbing Contractors
- Residential Building Contractors
- Steel and Iron Fabricators

#### Healthcare Services

- Assisted-Living Facilities
- Continuing Care Retirement Communities
- Healthcare Foundations
- Home Care Nursing Associations
- Hospital Authority
- Individual & Group Medical Practices
- Medical Billing Services
- Nursing & Rehabilitation Centers
- Personal Care Facilities
- Pharmaceutical Distributors
- Pharmacies
- Sub-acute Facilities

#### Manufacturing Industry

- Tool and Die
- Fabricators
- Mold Extrusions
- Snack Food
- Packaging
- Aluminum Siding
- Glass and Glazing
- Industrial and Automotive Tools





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Differentiation can be manifested in many ways: from how a product is delivered to new product features to new service options. Dell, for example, differentiated itself in how people bought computers, not necessarily by changing the computer features. Netflix basically bankrupted Blockbuster by offering a much more convenient way of delivering movies, and then was impacted by Red Box's even more convenient and lower priced method of movie delivery.

## 2.) Innovation

An Innovation Strategy is employed to create a significant change or "disruption" in a market. Seen most often in the technology sector, successful innovations can obsolete entire categories and product lines,

leaving lessor nimble companies struggling to survive. Witness Blackberry's current status. Apple is a prime example of an Innovation strategy; it developed completely new categories and new products – MAC computers, iPhones, iPads, iTunes. But Apple doesn't stop with purely disrupting a category. Each iteration of a product line is better: an example of differentiation and innovation.

## 3.) Operational Effectiveness

Operational Effectiveness as a strategy can be particularly effective in mature product categories and markets. The goal is to perform internal business activities better than competitors, making the company easier or more efficient to do business with than other market choices. Companies which use this strategy focus on improving the processes and characteristics of the company, affecting things like new product time-to-market, inventory controls and customer response time. Operational effectiveness can be significantly impacted by technology used to automate processes and increase timeliness in product and service delivery.

### JEFF BLEACHER



*"Your competitive advantage must be translated into real dollar returns: the strongest scenario is where you can claim both earnings and savings. By creating a strong advantage you will create an increasingly stronger balance sheet. Getting to know our customers and their markets helps us give clients insight into creating competitive advantages for long-term sustainability."*



### KEN FALK (on the right)

*"Owning valuable intangible assets, like patents and trademarks, will increase your competitive advantage. Anytime you can block out a competitor through legal protection you have a strong position that cannot be toppled. These assets create repeat business and tie your customers to you in ways that create operational efficiency and long-term increase in profits."*

*"We have the best customer satisfaction record, based on Transportation Dept. statistics, of any airline in America, the fewest complaints filed per 100,000 passengers carried. So you're not just getting low fares, you're also getting wonderful customer service." - Herb Kelleher (Southwest Airlines)*



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## 4.) Cost Leadership

A Cost Leadership Strategy is to offer products or services at the lowest cost in the industry. This strategy is often paired with an Operational Effectiveness strategy as the challenge is to keep costs and pricing low, but still earn a reasonable profit.

*"We brought prices down, down, down so they are now essentially commodities. So if we want to succeed in this business, we have to move in a direction of adding other value to the relationship with our clients. And so where I might have said 15 years ago, 'We want to be the best discount brokerage,' today I want to be the best 'relationship company' in financial services."  
- Charles Schwab*

Southwest Airlines keeps their ticket costs down by their fuel purchasing strategy, their lower hub costs, stripped down boarding processes and other operational items. They also have created a culture that has built consumer loyalty and gives them elasticity in add-on pricing.

In summary: creating a competitive analysis that builds a wide moat around your company is worth the resources required to develop and execute on these strategies. And while there are additional strategies to consider (branding, market segmentation, for example) these four will get you started on the path towards market leadership.

### LARRY REICH



*"If you operate in a tightly-regulated market you will find some challenges in creating a competitive advantage in your products. However, customer service is always a way to differentiate yourself and create an advantage in the market. RBF's clients often comment on our service levels and we work hard at keeping service as one of our main differentiators."*



### PATRICK GENDRUE (on the left)

*"If you are in a service sector, like we are, you will find that one of the key ways to create a competitive advantage is to develop deep industry knowledge and to know your customer in a very deep way. This knowledge is like gold and can build a strong foundation between client and service provider. It goes deeper than a relationship into a true knowing of a firm and its goals."*

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Ross Buehler Falk & Company, LLP  
Certified Public Accountants

1500 Lititz Pike  
Lancaster, PA 17601

717-393-2700  
717-393-1743 (fax)

[www.rbfco.com](http://www.rbfco.com)

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# Assess Your Company's Competitive Advantage

**Finding Your Competitive Advantage:** Using the format below, identify your competitive advantages by rating each area of your business. At the end, add up your score and determine the areas for development based on the score sheet below.

Area of Business	Rating (1 – 10 with 10 being high)
Product Line <i>(Depth &amp; Breadth relative to competitors)</i>	
Product Performance	
Pricing <i>(Relative to competitors)</i>	
Distribution/Shipping/Delivery of Service	
Internal Systems <i>(Effective processes that are problem free)</i>	
Support Staff <i>(Performance, Accountability)</i>	
Sales Staff <i>(Process, Closes)</i>	
Client Contact Staff <i>(Presentation Skills, Experience, Personal Interaction, Certifications, Education)</i>	
Company Size <i>(Relative to competitors)</i>	
Reputation	
Time in Business <i>(The longer in business, the higher your rating)</i>	
Investment in Company <i>(How much your company invests in technology, staff development, facilities, equipment, etc.)</i>	
Brand Strength	
Market Position	
Government Relations	
Warranties/Guarantees	
Patents	
R & D/New Products <i>Improved methodologies/Innovation</i>	
Specific items for your business & industry <i>(Distribution, manufacturing, services that are unique in your industry in which you excel)</i>	

## Rating Results (Maximum Rating – 200)

**150 – 200:** You have worked hard at creating a Competitive Advantage and are excelling. Now ask your customers to do the same rating so you aren't fooling yourself.

**100 – 150:** You have begun to create a Competitive Advantage position for your company and can move up the rating scale by focusing on the areas where your ratings are low. Check in with customers to focus on priorities for improvement.

**Less than 100:** There's nowhere to go but up! Communicating with your customers and getting feedback from them will help you focus on the most important areas of improvement. Move quickly so you don't fall further behind your competitors.





# Creating Competitive Advantages

Visualize your company as a castle and the moat as your competitive advantage points. The wider your moat, the more protected you are. All disciplines within the company should be involved in creating competitive advantages in order to create greater and greater advantages to separate your company from the competition. In addition, your team should continuously be exploring innovations that will propel you into the next level in your category and industry. When you have developed true competitive advantages you can fill in the blanks:

- “What we do really well is \_\_\_\_\_ and \_\_\_\_\_ and \_\_\_\_\_ and the competition can’t do it.”
- “In addition, we do \_\_\_\_\_ and \_\_\_\_\_ and \_\_\_\_\_ in a superior way.”
- “Our customers keep buying from us because \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_.”

## Creating Competitive Advantages: Become a Large Moat Company (example of a Large Moat Manufacturing Company)

